THE FINANCE FOUNDATION

ACCESS TO CASH REVIEW – CALL FOR EVIDENCE

RESPONSE BY THE FINANCE FOUNDATION[1]

Background

The Finance Foundation designed and published in-depth research in September 2016 on the needs of people in their 80s and 90s as they seek to stay in control of day to day financial transactions. This informed submissions to the Financial Conduct Authority's call for evidence on the ageing population and the consultation launched in 2016 by the House of Lords Select Committee on Financial Exclusion – the latter's report in March 2017 quoted our work in-depth, as did the Griggs' review of the Access to Banking Protocol, and subsequent newspaper coverage of these reports. Our work remains one of the most detailed recent investigations of this very specific group of the older old, who we argue are often overlooked by studies that take retirement age, age 65 or a similar cut off to research the needs of older people, masking the qualitatively different experience of those who are 80 or older. Our research report *"When I'm 84" – Locking the door on the older old: the challenge facing British Banks* can be accessed here, with the key findings also summarised on our website.

Question 1: What do you think could happen to cash demand in the UK over the next fifteen years?

It is clear that the rise in online and mobile banking and banking apps has been associated with a rapid fall in the demand for cash for a significant section of the population and that this is still continuing. Of course, even those who are confident with and prefer this way of banking may retain some attachment to cash if future IT outages, cyber-attacks and financial crises change perceptions of the value of holding cash as a protection against loss of banking function.

What is also clear is that there is a small but significant section of the population for whom cash remains and will continue to remain central to how they manage their day to day financial transactions over at least the 15-year timescale of this investigation and most likely for many years beyond. In particular, this includes the older old – those aged 80+. To the extent that this group predominantly continue to require cash, out of both preference and/or health and lifestyle

1. The Finance Foundation is an independent think tank that aims to encourage informed debate about financial services, explain what the sector does, and suggest ways it could work more effectively – see http://www.thefinancefoundation.org.uk/

necessity, then they are set to become increasingly significant. By 2030 they will have grown in number to 5 million, or 1 in 14 people in the UK. A full 1 million will be aged 90 or over.

Many in the financial and policy world expect that as younger cohorts age, they will become increasingly able to use technology, and there are also many policy initiatives in train to encourage greater use of digital banking among today's older customers. However set alongside this one has to consider that as life expectancy rises we will in effect have a group of older people who are not just living longer than previous generations, but who are also living for many years with a limiting illness or disability – current estimates are that men will have around eight and women around ten years of disability at the end of their lives.[2] As a recent Government Office for Science report succinctly puts it, we can expect to see 'a relative shift away from acute illness towards chronic conditions, multi-morbidities, cognitive impairments and long-term frailty'.[3] Moreover, the number of significant health conditions an older person is likely to have has been demonstrated to increase as they get older: for those aged 80-84 it is most common to have two conditions, by the age of 90-94 – one of the key growth areas demographically – five is most common.[4]

All of these challenges mean that the sector cannot necessarily rely on younger cohorts migrating to or maintaining skills for digital banking as they age rather having a preference for cash, the medium with which they are familiar or, in the case of those with limiting disability, can most easily manage through the physical and cognitive challenges of ageing. The fact that people currently in their 50s, 60s and 70s might be adept at using technology for managing their finances, or with a little extra support could become adept, does not necessarily mean that this will continue into later life in all cases.

Current research cited In the Access to Cash review is optimistic on this point, stating that '[t]he over 75s are the fastest growing group of internet users, and 78% of those 65-74 would be considered regular internet users.' The problem here, as we argue in our research, is that the distinction between the experience of the younger old and the older old is not being captured. While the over 75s as a generic group may be expanding their use of the internet, is this in fact concentrated among those up to about 80 or 85 rather than the whole cohort of older people stretching into their 90s and beyond who may have a very different set of needs? And looking into the future, how many of those in their 80s and 90s who previously used the internet will at some point stop doing so? The unfortunate fact is that we don't know because we don't collect any systematic data that would enable us to know what the characteristics of the very old are.

Moreover, our research with the older old has shown that in any case internet *use* is very different from internet banking. More than a third of the over 80s do use the internet for social or information purposes but our research found that under 10% are engaged in internet banking.[5] Recent data from Ofcom also show that 80% of those aged 75+ who are not currently using the internet say that there is nothing that would prompt them to change this in the next 12 months.[6] These findings are really important in the light of the expected rapid increase in the very oldest age

[2] Mortimer, J., and Green, M. (2015) *The Health and Care of Older People in England 2015*. Age UK, pp. 11-12.
[3] Government Office for Science (2016) *Future of an Ageing Population,* p.10.
[4] Ibid, p. 16
[5] Cooper, H. (2016) *"When I'm 84" Locking the door on the older old: the challenges facing Britain's banks*. The Finance Foundation, p. 37.
[6] https://www.ofcom.org.uk/__data/assets/pdf_file/0012/113232/Adults-media-use-and-attitudes-report-2018-subset-data-tables.pdf

groups. It is salutary to remember that the one million people who will be 90 or over by 2030 are already at least 78.

We argue that policy needs to consider that as people enter the oldest age groups they may at a certain point become less physically capable of banking tasks that require them to use technology. If you are suffering from sight loss due to macular degeneration, are semi-paralysed by a stroke or suffering the side effects of chemotherapy, all very common conditions for those in later old age, then using self-operated technology – whether ATM, phone or computer – may prove too much of a challenge. And that is before considering whether continued rapid changes in technological interfaces will be something that the older old are able to deal with as cognitive faculties and confidence in doing new things decline and as the gap since they were last in work and most able to assimilate technological changes starts to stretch into decades.

There must also be consideration given to the implications for access to cash of normal and accelerated cognitive ageing in which crystallised memory may remain strong – enabling people to use and apply pre-existing knowledge and skills – but fluid memory declines – affecting problem solving and ability to adapt to new tasks. For some older people this may create quite significant risks in operating digitally (of mistakes and vulnerability to scams and fraud) that are not there with the more familiar physical and cash-based banking methods. This is not to argue that older people should not have the option or the support to operate digitally if they wish. But it is to caution against a policy that makes access to alternative cash-based options so difficult that everyone is unwillingly pushed in a direction (i.e. digital access) that they may not want to take and might in some circumstances of even normal cognitive decline be better protected if they could avoid.

To conclude: given all the issues that face older people in particular, we think there is a clear case for accepting that there will be a demand for cash that will continue for many years to come, which is driven by real physical and cognitive challenges and risks.

Question 2: What are consumers' needs for cash and digital payments and how can they be best met in the future?

This section summarises the findings from our research on older people's (80+) need for cash, which found both a strong preference for cash and for face to face interaction as part of their day to day banking as well as a dislike and disinclination to use technology for a whole variety of reasons, including physical and cognitive challenges and fears over security, theft and mistakes.

The very old value the immediacy, familiarity and tangibility of cash

Older people are highly dependent on cash for daily purposes and for paying people who do work or shopping for them. Our research showed that, in contrast to younger people's behaviours, half of all older people age 80+ draw out cash at least weekly and 80% at least monthly.[7] While some things are changing around person to person transactions – for instance it is increasingly possible to pay tradesmen via electronic devices brought to the home which just require a card to be inserted - this is not the case for payments to neighbours for shopping or other errands which feature prominently in older people's lives – a cashless transfer in this case would require the use of internet or banking apps that so many older people do not access. In contrast to tradesman, cleaners and carers may also often require payment in cash, not as a tax avoidance measure, but because they don't have the resources to use card machines to take payment and, in some cases, may themselves be unbanked.

[7] Cooper, H. (2016) *"When I'm 84" Locking the door on the older old: the challenges facing Britain's banks*. The Finance Foundation, p. 31.

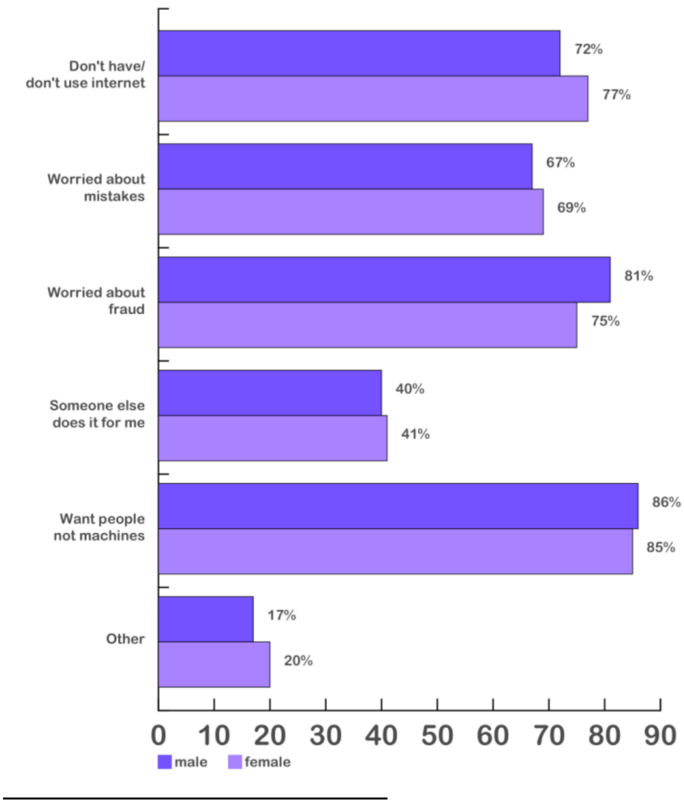
Similarly, while older people can now much more easily buy their cup of tea or newspaper through a low value contactless payment with a card, many still prefer to use cash for these transactions at least in part so that they can keep track of where their money is going. They also they place a high valuation on continuing to be able to make gifts, put money in charity boxes, pay for parking and pay local societies etc. in cash. Taken together with person to person payments, these transactions can amount to a significant requirement for regular cash.

Our research also showed that cash is used as the main way of budgeting and keeping track of money by around half of those responding. This is a really important part of managing day to day financial matters and for older people a very significant reason for preferring cash – in focus groups older people typically say when asked about this that they value being able to put their budgeted spending money in their wallet or purse so that they can see how much has been spent and how much they have left. This is perhaps of increasing importance as the declining frequency of and access to paper statements makes it that bit harder for those who are not using internet or mobile banking to keep on top of their spending. Those in this position may know how much is going out in regular direct debits for bills etc., but for the rest of their expenditure what they are telling us is that they want to maintain control through physical oversight of their money and the security that comes from dealing in money – notes and coins - that are tangible.

Older people are fearful of technology and worried about privacy, security and fraud, as well as finding it daunting and difficult to use

In our survey we found that 87% of the over 80s never use the internet for financial transactions, and those who do use it are generally shopping - only 9% are banking online. Reasons for non-use include not having the internet (75%) and a range of hypothetical worries over fraud, making mistakes and an overriding preference for interacting with people.[8]

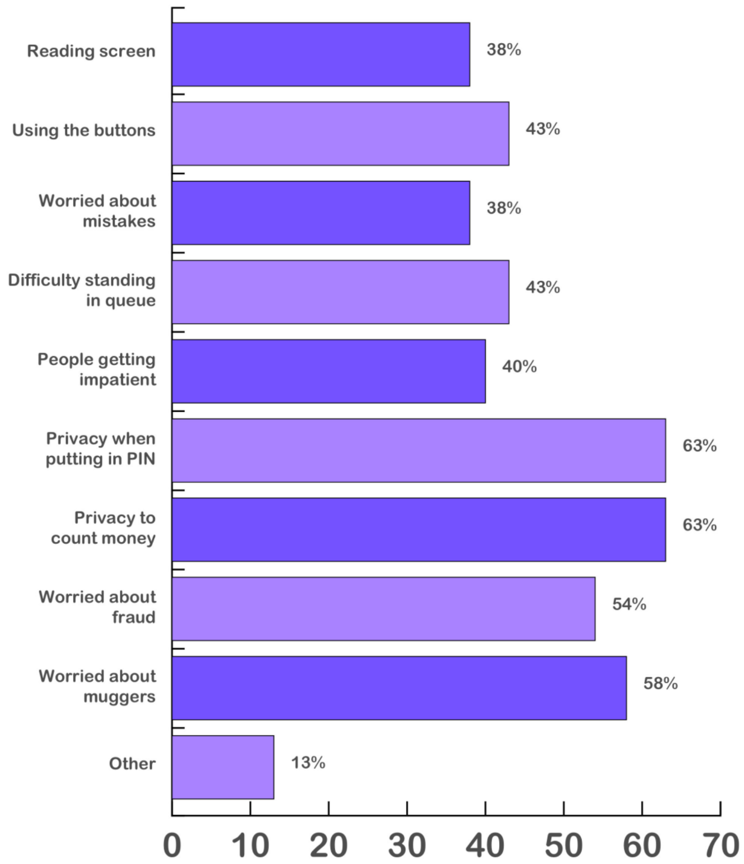
Reasons for not using the internet for financial matters



[8] Cooper, H. (2016) *"When I'm 84" Locking the door on the older old: the challenges facing Britain's banks*. The Finance Foundation, p. 38.

We also found that more than a third have either never used an ATM or avoid them as much as possible. The majority of those using actively using ATMs only do so inside banks or post offices, with only one in five prepared to use them in the street. Older people have a wide variety of concerns about ATMs, from worries about privacy, fraud or theft, to physical capacity issues (poor sight, stiff fingers) and anxiety about making a mistake or being pressurised to be too quick.[9]

Concerns about ATMs



One of the most salient points to come out of these findings on older people's approach to technology is their concern about fraud and error, which is one of the many drivers for them wanting to continue with cash-based and non-digital solutions. While this may seem partly a fear of the unknown, it also perhaps has well-founded roots. It is well-known that older people are deliberately targeted by scammers, partly because in general they hold more in savings than other groups, but also because many are less aware of and skilled at how to protect themselves when using technology, and may also be more vulnerable due to the subtle cognitive changes that come with age. These are serious issues to be considered when weighing up the importance of supporting older people's expressed preference to continue using physical banking and cash rather than digital technology.

[9] Ibid, p. 36.

How can people's need for cash best be met in the future?

Meeting the need for cash in the future requires an effective infrastructure to deliver cash to those who require it.

Until relatively recently the bank branch network and the ubiquity of free to use ATMS adequately fulfilled this function for the vast majority of people (although those living in very isolated places without a local shop or other facility offering access to cash would have had to contend with transport/mobility issues in reaching the nearest outlet).

The rapidly contracting branch bank network and the prospect of future reductions in the number of ATMs (let alone free to use ATMs) is obviously changing the infrastructure for accessing cash. Even quite significant-size market towns are now finding that the last bank in town is leaving.

However, the current agreement between banks and the Post Office network, with its wide reach of outlets, is a potential solution to maintaining an infrastructure for accessing (or in the case of small businesses, depositing) cash. A large number of the mainstream banks are covered by the arrangement. While it has limitations for some banking functions such as accessing savings accounts or setting up new direct debits etc., it does fairly and squarely enable access to cash.

If this is to be the future infrastructure solution for accessing cash then a number of changes/improvements may be required. The first of these should be to bring the continued provision of these services within some sort of regulatory framework rather than relying on voluntary agreements between banks and the Post Office being periodically renegotiated and renewed. The current arrangement allows for the potential of free-riders to emerge with some banks not playing ball and relying on others to pick up the cost of in effect maintaining a cash infrastructure. At the limit there is nothing formal to stop the agreement being ended altogether. Without regulated rules there is also the potential for the negotiated transfer of funds from the banking sector to the Post Office to be insufficient to compensate for and therefore incentivise the provision of cash services – there is already evidence that this is happening in certain Post Office outlets to the detriment of consumers.

There is also a need to consider the future design of Post Office services and whether they will be suitable for the large numbers of older people requiring access to cash. Older people are clear that they strongly prefer face to face interaction rather than using machines, many find standing in queues for any length of time very difficult, and they also told us that they needed privacy and space to count and put away their money in a way that they felt safe with. These are real concerns that need to be reflected in service design in order to deliver an infrastructure that is fit for purpose.

Finally, there is a need to consider whether a different type of infrastructure could be developed for delivering cash directly to people's homes in the future, rather than providing facilities that they have to travel or be taken to. For more routine needs, such as getting cash to housebound customers, it really should not be that difficult to design systems to deliver cash directly to them. This currently happens when people order foreign currency to be delivered by courier or often simply through the postal system – now may be the time to think about whether this could be extended in a safe and cost-effective manner to ordinary cash withdrawals. Other alternatives might also be explored. For instance, home shopping or delivery services could perhaps offer secure cash delivery as well, so that when an older person receives their groceries or meal services on the doorstep (perhaps ordered online by someone else) they also get a sealed envelope with their cash. The possibilities for this sort of service are multiplying all the time as Amazon and others intensify their courier services and other technologies for home or local secure locker delivery become mainstream.

At least one bank – Barclays – has trialled a secure vehicle collection service, "Barclays Collect", to visit business customers at their own premises and collect cash from them to deposit in the bank on their behalf instead of them visiting a branch to do it (offered for free for deposits of £5,000 or more). It should surely, therefore, be possible, if the incentives are right, to adapt this sort of service to include cash drop offs from secure vehicles to specified customers or collection points.

Innovations of this kind that support people in maintaining access to cash should be viewed as equally valid and important as innovations that support people in adopting digital solutions.

Question 3: What digital or other innovations are likely to affect those who are currently using cash?

There is undoubtedly enormous potential for technological innovations to help people currently using cash as a payment and budgeting mechanism to be able to find other ways of managing their money if that is what they want. Age-friendly design of devices is an obvious basic starting point for supporting inclusion. As far as other innovations are concerned they will have to work within the grain of why older people are using cash by preference and what the physical and cognitive challenges and barriers are to the safe adoption of new ways of doing things.

Question 4: Does access to cash require regulation or central co-ordination that goes beyond the current framework? If so, what should this involve?

Given that the pressures on the financial services sector are towards an accelerating reduction in the infrastructure for accessing cash, then some further regulation or co-ordination will almost certainly be required if this access it to be protected. This could take a variety of forms.

Regulatory Universal Service Obligation (USO)

The introduction of a regulatory Universal Service Obligation is one way forward. The FCA noted in a 2016 paper on access that:

'Without access to financial services consumers can find themselves shut out of modern life'. [10]

If we accept that this is the case, then it raises the issue of whether access to cash payments systems and other essential financial services would meet the criteria of an "essential service" that should therefore be provided under a Universal Service Obligation – in effect requiring businesses to ensure that they were providing services that meet the needs of all consumers, including those in need of special help.[11] USOs already apply in many utilities, and this is being extended to cover high speed broadband provision. It might be argued that the time has come to push for similar treatment for citizens' access to cash and payments systems.

Moreover, a universal service obligation on the banks to provide continuing access to cash for those who require it and/or who can no longer access physical facilities would act as a strong incentive to start developing innovative solutions, including ways of managing cash delivery to private addresses

[10] Collard, S., Coppack, M., Lowe, J., Sarkar, S. (2016) *Access to Financial Services in the UK*. Occasional Paper 17, Financial Conduct Authority.

[11] This is in fact an argument that was put forward by Age UK seven years ago in their 2011 report *The Way We Pay: Payment Systems and Financial Inclusion*

in the same way that foreign currency is currently delivered. This might extend to the development of secure courier and home delivery services or even the equivalent of Amazon locker local pick-ups.

Statutory duty on FCA to promote financial inclusion

There are other regulatory options that might be considered. It is external market changes in financial services that are now potentially pushing more people, especially those in older age, towards financial exclusion because they are finding it increasing difficult to manage their finances and retain access to cash. While the FCA clearly has some leverage to steer industry towards meeting the needs of older consumers and to advocate on their behalf, it does not have any specific objective or duty around consumers' access to financial services or financial inclusion more generally. There may be a case for this to be reviewed so that the FCA is given a more robust role that potentially includes a statutory duty to promote financial inclusion as one of its key objectives, as has previously been proposed by the Financial Inclusion Commission[12] and more recently by the House of Lords Select Committee on Financial Exclusion.[13]

The House of Lords Select Committee also proposes a series of other measures to strengthen the framework for securing financial inclusion including: appointing a clearly designated Minister for Financial Inclusion, setting a clear strategy for improving financial inclusion and providing an annual report on progress made and amending the Financial Services and Markets Act 2000 to introduce a requirement for the FCA to make rules setting out a reasonable duty of care for financial services providers to exercise towards their consumers.

Strengthening and formalising current infrastructure

As outlined in the response to Question 2, the Post Office network could potentially be a viable means of supporting access to cash into the future. As already set out, there needs to be a stronger oversight of this provision, making it into a permanent and properly funded solution that is not subject to continual renegotiation and cannot be subject to free rider problems or closure and which provides adequate incentives to individual post office outlets to provide a cash service.

There must also now be recognition that the Access to Banking Standard, while it may have small impacts, is not an adequate solution and does nothing to halt the closure of local bank branches, because it is not designed to do so. Nor is there currently any mechanism that is co-ordinating the process of protecting access to free to use ATMs or indeed to any ATM, free or not. This is especially problematic for those in rural areas where there may be a perfect storm of withdrawal of local bank branches, loss of ATMs, ineffective or non-existent broadband for online solutions and lack of access to adequate transport to travel to places where facilities such as post offices are available.

There is therefore a case for a potential public subsidy or some form of public regulation around free to use ATMs so that this facility is not pared down to the bone. Although the current network of 11,500 post offices may be accessible in town and other population centres, the "corner shop" style accessibility of the currently much larger network of ATMs also plays a key role in enabling access to cash. Steps to achieve this could be combined with a discussion of things like the minimum amount that can be withdrawn (for instance if there is an issue with lots of small withdrawals of £10) – increasing this to £50 or limiting the number of small withdrawals in a week could easily be built in.

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[12] Financial Inclusion Commission (2015) *Improving the Financial Health of the Nation*.
[13] House of Lords Select Committee on Financial Exclusion (2017) *Tackling financial exclusion: A country that works for everyone*? Report of Session 2016-17, March 2017.

Question 5: How should access to cash be paid for?

Options for paying for access to cash range from: direct transfer of the costs to those requiring cash, to collective responsibility placed upon all banking consumers to bear the costs as a cross-subsidy, to direct regulation/levy on financial institutions to provide and hence in some way bear the costs of this access (or pass on to consumers) to a more generalised public assumption of the costs involved.

Before adjudicating between these options, it is important to consider what we mean by the "cost of accessing cash". It is easy to see this in a one-dimensional transactional way as the costs associated with whatever infrastructure or provision is required to maintain effective access for those requiring it. However, a true cost benefit analysis would also take into account the costs (to individuals, the financial sector and society more generally) of *not* providing access to cash.

It is often argued that a move to a cashless society delivers wider societal benefits and savings by reducing the scope for the informal economy to operate outside the tax network or for terrorist networks and organised crime to operate under the radar. This therefore may be explicitly or implicitly added into the weight of argument in favour of encouraging the development of a fully cashless payments infrastructure.

There is not much corresponding discussion of the costs of crime and fraud associated with a fully digital infrastructure, nor of the societal costs of pushing a set of consumers not well-suited to or adapted to the use of digital transactions into one of two positions; either using it potentially unsafely and inexpertly or becoming financially excluded with the risk that they may be forced into expensive residential accommodation or other forms of dependency earlier than necessary simply because they have no means available to manage the financial transactions that would enable them to stay living independently.

It might also be argued that it is not valid to ask a question about who should bear the costs of access to cash unless we are also asking a question about who should bear the costs of access to digital technology and banking apps. Has there been any attempt to quantify the costs of providing the technology in the first place and then of mitigating technological failure and outages and putting in protections against cyber-crime or to consider who is paying for them? How much does it cost for banks to implement fraud and scam detection processes for digital transactions, particularly systems focusing on older people, or to provide redress where things go wrong with digitally enabled systems? Would all of this have cost less if some of these transactions had not been digital? All of these issues are relevant but rarely discussed when coming to a view on the merits or demerits of providing and costing access to cash. One might ask why one group's requirement is being subject to this level of cost scrutiny or the implication that they might be asked to pay directly for their infrastructure needs when everyone else's access route is not.

The bigger issue in assessing how access to cash should be paid for of course has to lie in thinking about why as a society we want to maintain this as an option. Perhaps we all have a stake in this. Large numbers of us are carers or will become carers in the future, often for parents or other older people who are more dependent on family and friends now that social care support is increasingly cut back. The harder it is for older people to deal with their own finances independently in a way that they can manage or have been accustomed to, the more they will rely on relatives, neighbours and friends for support. This is already evident in the well-documented cases of handing over debit cards and PIN numbers and enabling relatives to have access to online accounts. If accessing cash becomes significantly harder, then the burden on informal family carers to provide financial access and support for older people will become greater, and older people will also potentially be increasingly exposed to the risk of financial abuse.

In these circumstances, both considerations of social justice and of self-interest (in terms of reducing the caring burden) might lead people to agree that a bank levy or social charge of some kind to support older people in staying financially independent by being able to access cash directly would be justified. Some might even support it with an eye on a future in which they might themselves want to have access to cash as a payment option.

An extension of this argument is to consider the counterfactual: the cost of *not* supporting access to cash. This is likely to be associated with a greater number of older people requiring residential care sooner than they might otherwise have needed it because they are no longer able to live independently. At the time of the 2011 Census 38% of 75–84 year olds were living alone, rising to 59% of those aged 85 or older.[14] This is consistent with estimates that just 16% of people aged 85 and over live in nursing homes or residential facilities.[15] Others in this age group may be living with their partner or with other family members, if they have reached a greater level of dependency. But with so few of those in later old age living in care homes, it is clear that access to appropriate means of managing day to day financial matters is of central importance.

If as a society we take the view that investing in services and support that enable older people to remain independent for longer is a valid preventative policy stance, then we need to apply that logic to this most crucial of activities. The ability to access money and have an effective means of paying for life's necessities must be understood as being as fundamental as being able to continue with basic functions such as washing, dressing and eating. If we do not find a way of ensuring that older people can carry out routine financial transactions, even if it is as simple as paying a neighbour for shopping, then all the other support we provide to them with other daily tasks may not in the end be sufficient to enable them to continue to live independently.

Surely we should be having the discussion as a society about how we come together to provide the resources to enable older people to stay in control of their day to day finances, including protecting their access to cash, avoiding the more-costly alternative of pushing people into earlier than necessary institutional or other dependency – costly for them, costly for their relatives and costly for society as a whole.

[14] Office for National Statistics (2014) Living Alone in England and Wales. http://webarchive. nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/census/2011-census-analysis/ do-the-demographic-and-socio-economic-characteristics-of-those-living-alone-in-england-and-walesdiffer-from-the-general-population-/sty-living-alone-in-the-uk.html

[15] LaingBuisson (2014) Care of Elderly People Market Survey 2013/14.